

## REVENUE

Budget Summary						FTE Position Summary				
Fund	2012-13 Adjusted Base	Request		2013-15 Change Over Base Year Doubled		2012-13	Request		2014-15 Over 2012-13	
		2013-14	2014-15	Amount	%		2013-14	2014-15	Number	%
GPR	\$93,215,500	\$84,869,200	\$84,962,000	- \$16,599,800	- 8.9%	859.28	829.33	829.33	- 29.95	- 3.5%
PR	14,114,900	14,141,400	14,166,700	78,300	0.3	90.10	91.10	91.10	1.00	1.1
SEG	68,693,500	72,550,500	72,581,400	7,744,900	5.6	102.70	102.70	102.70	0.00	0.0
TOTAL	\$176,023,900	\$171,561,100	\$171,710,100	- \$8,776,600	- 2.5%	1,052.08	1,023.13	1,023.13	- 28.95	- 2.8%

### Major Request Items

### Agencywide

#### 1. STANDARD BUDGET ADJUSTMENTS

Request adjustments to the base budget for: (a) turnover reduction (-\$1,462,300 GPR and -\$117,900 SEG annually); (b) full funding of continuing salaries and fringe benefits (-\$2,412,200 GPR, -\$164,400 PR, and \$194,600 SEG annually); (c) reclassifications and semiautomatic pay progression (\$111,400 PR and \$27,400 SEG in 2013-14, and \$130,300 PR and \$42,200 SEG in 2014-15); (d) full funding of lease and directed moves costs (\$56,600 GPR, \$41,300 PR, and \$46,100 SEG in 2013-14, and \$149,400 GPR, \$49,700 PR, and \$60,200 SEG in 2014-15); and (e) minor transfers within the same appropriation.

GPR	- \$7,543,000
PR	3,900
SEG	329,300
Total	- \$7,209,800

#### 2. PERMANENT GPR REDUCTIONS

Request a decrease of \$4,440,200 and 28.95 positions annually to reflect a permanent base level reduction in the Department's GPR appropriations and positions.

	Funding	Positions
GPR	- \$8,880,400	- 28.95

## General Fund Taxes/Tax Administration

### 1. INDIVIDUAL INCOME TAX: MARRIAGE PENALTY REDUCTION

GPR-Tax	
Alternative A	- \$62,900,000
Alternative B	- 374,000,000
Alternative C	- 458,000,000
Alternative D	- 639,000,000
Alternative E	- 1,084,000,000
Alternative F	- 734,000,000

Request modifications to various state individual income tax provisions to reduce the taxes on married couples, effective in tax year 2013. Referred to as the "marriage penalty," certain features of the tax structure result in certain married couples incurring a higher tax liability than would occur if those individuals were single and filed separate returns. The state's tax structure includes several features, such as the married couple tax credit, to address the marriage penalty. However, the Department of Revenue (DOR) estimates that 51% of married couples will incur a marriage penalty in tax year 2013, without modifications to the tax system. To reduce the marriage penalty, the Department offers the following six alternatives that vary both in effectiveness and in their impact on state tax collections.

**Alternative A:** Extend the married couple tax credit to retirees, as well as wage earners, by including retirement income in the definition of earned income for purposes of calculating the credit. Reduce individual income tax collections by an estimated \$36,700,000 in 2013-14 and \$26,200,000 in 2014-15.

**Alternative B:** Modify the school property tax/rent credit by allowing married couples to calculate their credits based on a maximum amount of property taxes (\$5,000) that is twice the maximum allowed under current law (\$2,500) for married couples, as well as all other types of filers. Reduce individual income tax collections by an estimated \$215,000,000 in 2013-14 and \$159,000,000 in 2014-15.

**Alternative C:** Modify the tax brackets for married couples so that the threshold for each tax bracket is twice the threshold for single filers, as opposed to 33% higher than for single filers under current law. Reduce individual income tax collections by an estimated \$266,000,000 in 2013-14 and \$192,000,000 in 2014-15.

**Alternative D:** Increase the income parameters for the sliding scale standard deduction for married couples so that the parameters are twice the amounts of those for single filers. Reduce individual income tax collections by an estimated \$375,000,000 in 2013-14 and \$264,000,000 in 2014-15.

**Alternative E:** Modify both the sliding scale standard deduction and the tax brackets for married couples so that the income parameters for the sliding scale standard deduction and the threshold for each tax bracket are twice the parameters and thresholds for single filers. This combines Alternatives C and D, above. Reduce individual income tax collections by an estimated \$633,000,000 in 2013-14 and \$451,000,000 in 2014-15.

**Alternative F:** Modify the sliding scale standard deduction, tax brackets, and married

couple credit for married couples so that the income parameters for the sliding scale standard deduction and the threshold for each tax bracket are twice the parameters and thresholds for single filers, and so that the maximum credit amount under the married couple tax credit is reduced by half to \$240 from \$480 under current law. Reduce individual income tax collections by an estimated \$427,000,000 in 2013-14 and \$307,000,000 in 2014-15.

## 2. EARNED INCOME TAX CREDIT -- DEFINITION OF EARNED INCOME

GPR	- \$190,000
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Request statutory changes to modify the state earned income tax credit by disallowing the credit for persons whose earned income exceeds the maximum income limit for the credit and who deducted more than \$50,000 in intangible drilling costs, amortization, depletion allowances, depreciation, and expenses under Section 179 of the IRC in determining their Wisconsin adjusted gross income for the taxable year of the claim, effective with tax year 2013. Decrease expenditures by an estimated \$95,000 annually.

## 3. INTERNAL REVENUE CODE UPDATE

GPR-Tax	\$19,700,000
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Request statutory changes to modify references under state individual and corporate income and franchise taxes to the Internal Revenue Code (IRC) for tax years 2013 and thereafter to include IRC provisions enacted through December 31, 2012, with exceptions. The request would include changes to the IRC relating to the following provisions.

***Treatment of Certain Health Organizations.*** The Patient Protection and Affordable Care Act of 2010 (PPACA) modified the treatment of certain health organizations, such as Blue Cross Blue Shield. Blue Cross Blue Shield organizations were exempt from taxation as "social welfare organizations" prior to the Tax Reform Act of 1986. That Act revoked their exemption and subjected them to taxation under Section 833 of the IRC, which provides that they are subject to the income tax rules that apply to property and casualty insurers. However, the Act extended two special tax treatments to Blue Cross Blue Shield organizations, as well as to other organizations offering health insurance, provided the other organizations meet certain conditions. The special tax treatments relate to a deduction tied to cost-plus contracts and an exclusion from a provision that reduces a deduction that applies to property and casualty insurers. The PPACA limits these special tax treatments to organizations with a medical loss ratio standard of 85%. The Joint Committee on Taxation analysis of the Act indicates that "an organization's medical loss ratio is determined as the percentage of total premium revenue expended on reimbursement for clinical services that are provided to the enrollees under the organization's policies during the taxable year." Federalizing this provision is estimated to have a minimal impact on state tax collections.

***Taxation of Free Choice Vouchers for Health Plans.*** The Department of Defense and Full-Year Continuing Appropriations Act of 2011 repeals a provision in the Patient Protection and Affordable Care Act that was scheduled to take effect in 2014 and that relates to free choice vouchers for certain employees. Beginning in that year, the PPACA provided that certain employees covered by an employer-sponsored health plan, who are responsible for part of the

plan's cost, could opt out of the plan and receive "free choice vouchers" from the employer to be used to purchase health plans offered through affordable insurance exchanges. The value of the voucher was to equal the amount of the employer contribution to the employer-sponsored health plan and was not to be included in the employee's gross income, to the extent the voucher was used to purchase a health plan. This provision was limited to employees whose contributions fell between 8% and 9.5% of their household income and whose household income did not exceed 400% of the federal poverty level. Due to its repeal, this provision will not take effect, and federalizing the provision in the Department of Defense and Full-Year Continuing Appropriations Act would clarify that vouchers would be treated as employee compensation for state tax purposes. Federalizing this provision is estimated to have a minimal impact on state tax collections.

***Corporate Repurchase of Debt Instrument.*** In general, the deduction for a premium paid or incurred by an issuing corporation for repurchase of a debt instrument that is convertible into the stock of the issuing corporation, or a corporation in control of, or controlled by, the issuing corporation, may be disallowed or limited in certain cases. The federal Surface Transportation Extension Act of 2012, modified the definition of "control" to include indirect control relationships included in the IRC definition of controlled group. The Department requests that the provisions of the Surface Transportation Extension Act of 2012 be adopted for state income/franchise tax purposes. This provision would have a minimal fiscal effect.

***Pension Funding Rules for Determining Segment Interest Rates.*** The IRC specifies minimum funding requirements that generally apply to single-employer defined benefit pension plans. If these funding requirements are not met, a plan could be disqualified, and amounts in the plan could become taxable to the employee. Under the funding rules for single-employer defined benefit plans, the minimum required contribution generally depends on a comparison of the value of the plan's assets with the plan's funding target and target normal cost. The funding target is the present value of all the benefits earned as of the beginning of the plan year. The target normal cost is the present value of benefits expected to be earned during the plan year. Present value is determined using three interest rates, referred to as the first, second, and third, segment rates, each of which applies to benefit payments expected to be made during a certain period. A segment rate is determined using the portion of a corporate bond yield curve (based on average corporate bond yields for the preceding 24-month period) attributable to bonds maturing during the particular segment rate period.

The Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP-21) provides that each of the three segment rates used in determining present value must be increased or decreased as necessary to fall within a specified range of the average segment rate for the preceding 25-year period. This change would have the effect of reducing the aggregate required taxpayer contributions to pension funds and the related deductions. Consequently, it would increase state general fund revenues by an estimated \$3,500,000 in 2012-13, \$7,200,000 in 2013-14, and \$9,000,000 in 2014-15.

***Transfer of Excess Pension Assets to Retiree Medical Accounts.*** A second provision in the Moving Ahead for Progress in the 21<sup>st</sup> Century Act of 2012 extends a provision in the Pension Funding Equity Act of 2004 that was scheduled to expire on January 1, 2014, that relates

to the transfer of excess pension assets of a defined benefit plan to retiree medical accounts. Federal law defines excess pension assets as the value of the assets in a pension plan exceeding 125% of the sum of the plan's funding target and the plan's target cost for the plan year. Excess assets may be transferred to a retiree medical account within the plan to fund current health benefits for retirees. By previously adopting provisions in the Pension Funding Equity Act, Wisconsin federalized its treatment of transfers through December 31, 2013. For federal tax purposes, the Moving Ahead for Progress in the 21<sup>st</sup> Century Act permits transfers through December 31, 2021, so adopting provisions in that Act would maintain Wisconsin's conformity regarding the transfer of excess pension assets to retiree medical accounts through 2021. Federalizing this provision is estimated to have a minimal impact on state tax collections.

***Transfer of Excess Pension Assets to Fund the Purchase of Retiree Group-Term Life Insurance.*** A third provision in the Moving Ahead for Progress in the 21<sup>st</sup> Century Act of 2012 also relates to the transfer of excess pension assets. As noted above, federal law allows the transfer of excess pension assets of a defined benefit plan to retiree medical accounts. Prior to the Act, federal law limited the use of excess pension assets to funding current health benefits for retirees. However, the Act also permits qualified transfers to a separate account within a defined benefit plan to be used for the purchase of retiree group-term life insurance not in excess of \$50,000. Also, federal law specifies that the cost of employer-provided group-term life insurance coverage is not included in an employee's gross income, if the coverage does not exceed \$50,000. The Act extends this treatment to group-term life insurance coverage provided through a pension plan. Federalizing this provision is estimated to have a minimal impact on state tax collections.

***Exception from the Early Distribution Tax for Certain Annuities.*** A fourth provision in the Moving Ahead for Progress in the 21<sup>st</sup> Century Act of 2012 relates to an exception from the early distribution tax of annuities under a phased retirement program. Prior to the Act, federal law allowed certain exceptions to the 10% tax on early distributions, but none of the exceptions applied to payments that commenced before separating from service with the employer. A phased retirement program is available to certain full-time federal employees, which allows those employees to reduce their work schedules and receive reduced retirement annuities that reflect their work schedule reduction. The Act exempts those retirement annuity payments from the early distribution tax. Federalizing this provision is estimated to have a minimal impact on state tax collections.

***Installment Method for Accrual Basis Taxpayers.*** Under current law, taxpayers that use the accrual method of accounting cannot report income from an installment sale using the installment method of accounting. Gain from the sale of property must be recognized in the year of the sale.

Effective for dispositions of property on or after December 17, 1999, federal law prohibited the use of the installment method of accounting for taxpayers that used the accrual method. However, the Installment Tax Correction Act of 2000 repealed the federal prohibition on the use of the installment method for taxpayers using accrual accounting. The Department requests that this provision be adopted for state purposes. This provision would have a minimal

fiscal effect.

An installment sale is defined as a disposition of property where at least one payment is to be received after the close of the tax year in which the disposition occurs. The installment method of accounting means a method under which the income recognized from a disposition of property, for any tax year, is that proportion of the payments received in that year which the gross profit (realized, or to be realized when the payment is completed) bears to the total contract price.

The Department requests that the changes to the IRC take effect at the same time for state tax purposes as for federal tax purposes, except that the reference to the Installment Tax Correction Act would first apply to installment sales in taxable years beginning after December 31, 2012.

**4. MODIFY CERTAIN DEFINITIONS REGARDING  
TAXATION AND REGULATION OF CIGARETTES**

GPR-Tax	\$2,600,000
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Request statutory changes to specify that any entity or person who owns an automated roll-your-own (RYO) machine used to make cigarettes for non-personal use is a manufacturer of cigarettes. DOR requests that the changes apply to laws governing the cigarette tax, fire safety performance standards for cigarettes, and provisions of state law governing the tobacco master settlement agreement. As a result, a person operating such automated RYO machines for non-personal use would be subject to the state cigarette tax (generally \$2.52 per pack of 20 cigarettes) rather than the tax on tobacco products (71% of the manufacturer's list price). DOR requests that these provisions take effect on the first day of the third month beginning after publication of the biennial budget bill. The Department estimates that the requested modifications would increase state tax collections by \$1,200,000 in 2013-14 and \$1,400,000 in 2014-15.

**5. INTEREST ON WITHHOLDING TAX PERSONAL  
LIABILITY ASSESSMENTS**

GPR-Tax	\$392,500
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Request that current law be modified to assess unpaid withholding tax, interest, and penalty of a corporation or other entity as tax, interest, and penalty to the responsible person, subject to the delinquent tax interest rate of 18%. The Department estimates that this provision would increase state tax revenues by \$157,500 in 2013-14 and \$235,000 in 2014-15.

Under current law, any person required to withhold, account for, or pay withholding taxes, who intentionally fails to do so is personally liable and subject to a penalty equal to the total amount of the tax, plus interest and penalties on the tax. Because the unpaid tax, interest and penalty amounts are assessed as a "penalty", they are not subject to delinquent tax interest.

## 6. TAX REFUND INTERCEPT PROGRAM MODIFICATIONS

GPR-Tax	Unknown
SEG-REV	\$560,000

Request the following modifications to the Tax Refund Intercept Program (TRIP):

- a. Allow DOR to enter into agreements with other states to offset state tax refunds and refundable credits against the non-tax debts of those states, if those states agree to offset their tax refunds and refundable tax credits against Wisconsin non-tax debts. This provision would result in an unknown increase in GPR revenues.
- b. Authorize DOR to offset state and municipal tax and nontax debt against motor vehicle tax refunds. This provision would increase state SEG transportation fund revenues by an estimated \$280,000 annually.
- c. Authorize DOR to pass the Internal Revenue Service (IRS) tax refund offset fee to the debtor. The IRS charges \$22 per offset for participation in the federal tax refund offset program. Currently, DOR does not pass the cost of the offset for tax debts to the debtor. This provision would increase GPR revenues by an estimated \$155,800 annually.
- d. Create a hierarchy for all debts certified for setoff against tax refunds and refundable tax credits as follows: (1) DOR debt; (2) child support debt certified by the Department of Children and Families; (3) state agency debt under the Statewide Debt Collection (SDC) program; (4) local government debt certified for collection under SDC; (5) state agency debt certified for refund intercept; (6) local government debt certified for refund intercept; (7) federal tax debt certified for refund intercept; (8) tribal debt certified for refund intercept; and (9) other states' tax debt certified for refund intercept. This provision would have an unknown fiscal effect.

Under current law, DOR is authorized to offset against state tax refunds and refundable tax credits: (a) amounts owed for state taxes; (b) debts to state agencies; (c) debts owed to state, county, and municipal courts; (d) delinquent child and spousal support and maintenance payments; and (e) debts owed to counties and municipalities. The Department is allowed to enter into agreements with the IRS and/or the Department of Treasury to offset state tax refunds and refundable tax credits against federal tax and nontax debts, if the federal agency offsets federal tax refunds against state tax and nontax debts. The state can charge a fee of up to \$25 for each transaction. DOR can enter into agreements with other states to offset state tax refunds and refundable tax credits against the tax debts of those states, if those states agree to offset their tax refunds and refundable tax credits against Wisconsin tax debts. DOR is also authorized to enter into agreements with federally recognized Indian tribes in Wisconsin to offset state tax refunds and refundable tax credits against tribal obligations, and to charge a fee of up to \$25 for each transaction for such setoffs. In general, the costs of debt collection activities are funded by fees charged to the debtor, and amounts collected are placed in the Department's debt collection appropriation to fund administrative costs. Annual expenditure authority of \$813,300 PR and 5.50 PR positions are provided 2011-12 and 2012-13.

Tax refund intercepts under the TRIP program are applied to debts in the following order:

(a) debts owed to DOR; (b) debts certified by other state agencies, in the order certified; (c) debts certified by counties and municipalities, in the order certified; and (d) debts certified by the IRS, in the order certified.

Provisions included in 2009 Wisconsin Act 28 (the 2009-11 biennial budget) authorized DOR to administer a statewide debt collection (SDC) initiative, under which the Department could enter into a written agreement to collect any amount owed to a state agency. Refund intercepts are first applied to debts owed DOR, then to state agencies, the courts, the Legislature and authorities and then to debts owed local units of government, in the order in which the debts were referred to DOR.

## **7. RELIANCE ON PAST AUDITS**

GPR-Tax	Unknown
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Request provisions that relate to reliance on past audits be adopted that would provide that a person who was subject to an audit determination by DOR, including for corporate income/franchise taxes for tax years beginning after December 31, 2008, all other members of that person's combined group (as determined under combined reporting provisions), would not be liable for any amount that DOR asserted that the person owed if all of the following conditions were satisfied:

a. The liability asserted by the Department in the current audit determination is the result of a tax issue that is the same as the tax issue associated with the prior audit determination.

b. A Department employee who was involved in the prior audit determination identified and reviewed the tax issue before completing the prior audit determination, as shown by any schedules, exhibits, audit reports, documents, or other written evidence pertaining to the audit determination, and the schedules, exhibits, audit reports, documents or other written evidence show that the Department did not adjust the person's treatment of the tax issue.

c. The liability asserted by DOR was not asserted in the prior audit determination.

These provisions would not apply if:

a. The liability asserted by DOR in the current audit determination is the result of an amendment to law, promulgation of rule, guidance published by the Department, written guidance that was provided to a person who is a party to an audit determination, or final and conclusive decision of the Tax Appeals Commission (TAC) or courts since that prior audit determination. The Department would be required to determine the liability from the effective date of the amendment to law or promulgation of rule, the date of publication or issuance of written guidance, or the date on which there is a final and conclusive decision of the TAC or a court.

b. The taxpayer did not give the Department employee adequate and accurate information to make an accurate audit determination on the tax issue in the prior audit determination.



c. The Department and the taxpayer had a written agreement of a tax issue in the prior audit determination as shown by any schedules, exhibits, audit reports, documents or other written evidence.

These provisions would first apply to current audit determinations issued on or after January 1, 2014, regardless of when a prior audit determination was made.

In 2007, a similar, but broader, provision was estimated to reduce state tax revenues by \$6.5 million annually. DOR indicates that this provision would have a substantially smaller, but unknown fiscal effect.

In performing audits of specific items, such as deductions or credits, or in more extensive cases, DOR typically reviews only the tax information relevant to that audit. In general, the Department does not conduct a full audit of all the information on a tax return. As a result, DOR does not attest to the accuracy of all the tax information reported by those taxpayers. Under current law, DOR is authorized to absolve a taxpayer of liability for interest and penalties, if the taxpayer shows that the liability resulted because the taxpayer relied on an erroneous written statement made by a DOR employee acting in an official capacity, and that the taxpayer gave the DOR employee adequate and accurate information.

2011 Act 68 included a nonstatutory provision requiring DOR to include in its 2013-15 biennial budget request statutory modifications related to reliance on past audits that were substantially similar to provisions included in September, 2011, Special Session Senate Bill 23, as introduced.

## 8. STATE AGENCY DATA SHARING

GPR-Tax	Unknown
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Request that the Departments of Children and Families (DCF), Employee Trust Funds (ETF), Health Services (DHS), Transportation (DOT), and Workforce Development (DWD) be specifically authorized to share certain information with DOR to assist DOR in tax administration activities that address fraud, identity theft, non-filing, and underreporting.

*Department of Children and Families.* Authorize DCF to disclose information related to applicants and recipients of public assistance programs administered by DCF to DOR, including transmitting or granting access to electronic data solely for the purpose of verifying refundable credits, in addition to administering state taxes. Under current law, DCF is authorized to disclose information related to such programs solely for administering state taxes. In addition, authorize DCF, upon request, to provide to DOR information on kinship care payments and certain other payments made by the Department, solely for the purpose of verifying refundable credits and administering state taxes. Any information obtained by DOR would be subject to statutory confidentiality provisions.

*Department of Employee Trust Funds.* Authorize ETF, upon request, to disclose information to DOR, including social security numbers, concerning an annuity, for the sole purpose of administering state taxes, for the purposes of locating persons, or the assets of

persons, who have failed to file tax returns, who have underreported their taxable income or who are delinquent taxpayers, and for identifying fraudulent tax returns or providing information for tax-related prosecutions.

*Department of Health Services.* Provide that, upon request, DHS or a local registrar, may disclose information, including social security numbers, to DOR concerning a birth or death record for the sole purpose of administering state taxes, for the purpose of locating persons, or the assets of persons, who have failed to file tax returns, who have underreported their taxable income or who are delinquent taxpayers, and for identifying fraudulent tax returns or providing information for tax-related prosecutions.

*Department of Transportation.* Authorize DOT, upon request, to provide to DOR any applicant information maintained by DOT related to licenses and identification cards, including social security numbers. This would include DOT providing electronic access to the information. Any information obtained by DOR would be subject to statutory confidentiality provisions.

*Workforce Development.* Authorize DWD, upon request, to disclose information, including social security numbers, to DOR concerning a claimant of unemployment compensation, for the sole purpose of administering state taxes, for the purposes of locating persons, or the assets of persons, who have failed to file tax returns, who have underreported their taxable income or who are delinquent taxpayers, or for identifying fraudulent tax returns or providing information for tax-related prosecutions.

These provisions would have an unknown fiscal effect.

## **9. INTEREST ON REFUNDS RELATED TO REFUNDABLE TAX CREDITS**

GPR-Tax	\$3,000,000
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Request that current law be modified to disallow interest for refund claims involving refundable income/franchise tax credits. This provision would be effective for tax years beginning after December 31, 2010, and would increase state revenues by an estimated \$1,500,000 annually.

Under current law, DOR must pay interest at the annual rate of 9% on refunds that are issued on the later of more than 90 days after the date on which the taxes on which the refund is based would have been delinquent, or 90 days past the date on which the tax return was originally filed. Also under current law, interest cannot be paid on refunds involving the Homestead Tax Credit.

The Department indicates that this provision is intended to address instances where taxpayers file an initial return and do not claim refundable credits for which they are eligible, and then subsequently file an amended return that includes the refundable credit. In these cases, 9% interest is paid on the refundable credit from the date of the initial return, rather than the amended return. The Department believes that current law creates an incentive for taxpayers to intentionally delay claims for refundable credits in order to receive the 9% interest payment.

## 10. INCREASE FEE TO OBTAIN NET TAX

Request that, for calendar years 2014 through 2018, the fee for obtaining the net tax paid by a taxpayer be increased from \$4 to \$15 for each return, to fully fund the Department's costs of administering the information requests. For calendar years 2019 and thereafter, DOR would be authorized to set the fee at an amount based on the Department's administrative costs. This provision would have a minimal fiscal effect. Under current law, upon request, DOR is required to provide the net tax paid by a taxpayer for a tax year. A fee of \$4 per return is charged to the requestor.

## Lottery Administration

### 1. LOTTERY SALES PROJECTIONS

Projected lottery sales provide the basis for estimating the lottery and gaming property tax credit in the next biennium. In addition, the projected sales directly affect appropriations for retailer compensation and lottery vendor fees. The Department's September, 2012, request projects sales of \$508.4 million in 2013-14 and 2014-15. The following table shows these projections, as well as 2011-12 actual lottery sales and the 2012-13 sales estimates used to determine base level funding for retailer compensation and vendor fees under 2011 Act 32. [Note that on November 5, 2012, subsequent to submission of the Department's request, lottery sales were reestimated in conjunction with the certification of the 2012(13) lottery and gaming property tax credit by the Department of Administration. The Department's reestimate was approved by the Joint Committee on Finance. The November, 2012, projected sales for the 2013-15 biennium are \$521.2 million annually; the projections are based on sales modeling utilized by DOR to estimate both lotto (on-line) and instant ticket games.]

#### Lottery Sales Projections (\$ in Millions)

<u>Game Type</u>	<u>Actual 2011-12</u>	<u>Act 32 2012-13</u>	<u>DOR 2013-14</u>	<u>Percent Change from 2012-13</u>	<u>DOR 2014-15</u>	<u>Percent Change from 2013-14</u>
Scratch	\$320.1	\$270.6	\$299.0	10.5%	\$299.0	0.0%
Pull-tab	2.3	4.0	3.5	-12.5	3.5	0.0
Lotto	<u>225.2</u>	<u>205.5</u>	<u>205.9</u>	0.2	<u>205.9</u>	0.0
Total	\$547.6	\$480.1	\$508.4	5.9%	\$508.4	0.0%

**2. SUM SUFFICIENT APPROPRIATIONS FOR RETAILER  
COMPENSATION AND VENDOR FEES**

SEG	\$7,313,600
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Request \$3,656,800 annually to reestimate lottery sum sufficient appropriations for retailer compensation and vendor fees, as follows:

*Retailer Compensation.* Request an increase of \$1,938,000 annually to adjust base-level funding for retailer compensation, including payments to retailers under the retailer performance program, to reflect projected lottery sales in the 2013-15 biennium.

Basic retailer compensation rates under current law are 5.5% for lotto ticket sales and 6.25% for instant ticket sales. In addition, the retailer performance program provides an amount of up to 1% of for-profit sales as incentive payments to retailers (estimated at \$5.1 million in 2013-14 and 2014-15, under the request). Base level funding of \$33,723,100, established under 2011 Wisconsin Act 32, was based on estimated lottery sales of \$480.1 million in 2012-13. The Department's lottery sales projections of \$508.4 million in 2013-14 and 2014-15 result in the requested increases to retailer compensation funding.

*Vendor Fees.* Request an increase of \$1,718,800 annually to adjust base-level funding for vendor fees to reflect projected lottery sales in the 2013-15 biennium. Base level funding for vendor fees is \$11,193,400.

Vendor fees are paid under a major procurement contract for the provision of data processing services relating to both lotto and instant lottery games. The fees are calculated on the basis of a percentage of total ticket sales. Under the request, vendor fees would total 2.5% of lottery ticket sales in both 2013-14 and 2014-15.